

**BOARD OF DIRECTORS REPORT ON ITEM THREE ON THE AGENDA FOR
THE GENERAL SHAREHOLDERS' MEETING
(CONVENED FOR 5 APRIL 2018 ON SINGLE CALL)**

Authorisation to purchase and dispose of treasury shares. Related and resulting resolutions.

REPORT OF THE BOARD OF DIRECTORS

Introduction

Dear Shareholders,

The Annual General Meeting convened to approve the financial statements for the financial year closed on 31 December 2017, to be held on 5 April 2018 at 11.00 hours in the registered offices of Banca Farmafactoring S.p.A. (the “**Bank**” or the “**Company**”) in Milan at Via Domenichino No. 5 (the “**Corporate Headquarters**”), **on single notice** (henceforth the “**General Meeting**”), has been called to debate and resolve among other things on the proposed authorisation to purchase and dispose of treasury shares as provided for jointly in Articles 2357 and 2357-ter of the Italian Civil Code and Article 132 of Legislative Decree No. 58/1998 as subsequently amended (the Consolidated Financial Act - “**TUF**”), at the same time revoking the similar resolution of the 5 December 2016 Shareholders Meeting insofar as not implemented by the date of said resolution to revoke (the “**2017 Authorisation**”), and without prejudice to any transactions carried out in the meantime, in the terms of the following:

AGENDA

1. *[Omissis]*
2. *[Omissis]*
3. *Authorisation to purchase and dispose of treasury shares. Related and resulting resolutions.*
4. *[Omissis]*
 - 4.1. *[Omissis]*
 - 4.2. *[Omissis]*
 - 4.3. *[Omissis]*
5. *[Omissis]*
 - 5.1. *[Omissis]*
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 - 5.3. *[Omissis]*
 - 5.4. *[Omissis]*
 - 5.5. *[Omissis]*
6. *[Omissis]*
 - 6.1. *[Omissis]*
 - 6.2. *[Omissis]*
 - 6.3. *[Omissis]*
7. *[Omissis]*

Pursuant to Article 73 of the CONSOB Regulation adopted in Resolution No. 11971/1999, as subsequently amended (the “**Issuer Regulation**”), the administrative body must, twenty-one days prior to the date set for a General Meeting called to resolve on the acquisition and disposal of treasury shares, make a report on the items on the Agenda available to the public at the corporate headquarters, on the Company website and as otherwise provided for by the CONSOB in regulation.

Given that obligation, this report (the “**Report**”) refers to item three on the Agenda for the General Meeting, relative to the “*Authorisation to purchase and dispose of treasury shares. Related and resulting resolutions*”, and was prepared in accordance with the Addendum to Annex 3A – Schedule 4 – of the Issuer Regulation.

This Report was filed with the Corporate Headquarters and Borsa Italiana S.p.A. within said term as per Article 73 of the Issuer Regulation, and Shareholders were authorised to secure copies. The Report is available among other things at “*Investor Relations/General Meeting Documentation*” on the Bank’s website (www.Bankfarmafactoring.it, the “**Website**”), and at the centralised storage facility named “1info” managed by Computershare S.p.A., available at www.1info.it.

This Report was approved by the Company’s Board of Directors on 22 February 2018.

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1. The reasoning behind the authorisation to purchase and/or dispose of treasury shares

This request for authorisation tabled for your examination (the “**Authorisation Request**”) is designed to authorise the Board of Directors to purchase and dispose of the Bank’s treasury shares in accordance with the legislation, including that of the Community in place at this time¹, so that the Company may:

- (a) directly or via intermediaries, carry out transactions to stabilise and/or maintain the liquidity of BFF’s stock;
- (b) dispose of usable treasury shares: (i) for share incentive plans reserved for Company Directors and/or Company employees and/or of companies directly or indirectly controlled by it, for example the current “*Banca Farmafactoring Group Stock Options Plan*”, and (ii) to balance the variable remuneration of the “*Risk Takers*” in implementing the Banca Farmafactoring

¹ It is understood that the effective launch of the programme to purchase treasury shares may be resolved on by the Board of Directors subject to issue by the Bank of Italy of the authorisation regulated in Article 78 of (EU) Regulation No. 575/2013 of the European Parliament and Council, of 26 June 2013 (the “**CRR**”).

Banking Group's incentive system established in the *“Remuneration and Incentive Policy in favour of Members of the Strategic Supervision, Management and Control Bodies, and Personnel of the Banca Farmactoring Banking Group”* in place from time to time, and

- (c) have a “securities store” for use as part of any extraordinary operations such as, for example, acquisitions, issue of bonds convertible to Company shares, or other transactions where it is necessary or opportune to exchange or dispose of share packages by, for example, exchange, conferral or some other form of disposal and/or use.

The Authorisation Request also authorises the Board of Directors to perform recurring and successive acquisitions and sales (or other acts of disposal) of shares in the portfolio, also in revolving form and for fractions of the maximum authorised amount. These transactions shall be implemented so that, at any time, the number of shares in such acquisition and owned by the Company does not exceed the limits provided for by law and the General Meeting's authorisation and is in compliance with the applicable legal and regulatory provisions², market practices permitted from time to time³, and the regulatory provisions and guidelines applicable to banks⁴.

2. The maximum number, class and par value of shares the authorisation refers to

The maximum number of ordinary Bank shares (the “**Treasury Shares**”) it is proposed in this Authorisation Request to purchase, once or more, may not exceed 26,196,539 shares of zero par value.

In appraising compliance with said limit, account must also be taken of any shares acquired in subsidiaries.

3. Useful information for assessing compliance with Article 2357.1 and 3 of the Italian Civil Code and Article 132 of the TUF

The maximum amount of treasury shares referred to in this Authorisation Request is 20% of the 170,107,400 zero-par-value shares that, on the date of this Report, represent the whole of the Bank's

² Note must be made in this respect, by way of example, of the TUF, the Issuer Regulation, (EU) Regulation No. 596 of 16 April 2014 concerning market abuse (the “**MAR**”), and (EU) Delegated Regulation No. 1052 of 8 March 2016 on the conditions applicable to buy-back of treasury shares and stabilisation measures.

³ Reference should be made here to market practices permitted by the CONSOB in Resolution No. 16839 of 19 March 2009.

⁴ On this aspect, by way of example, see (EU) Delegated Regulation No. 241 of 7 January 2014, adopted by the European Commission for the purposes of Articles 77 and 78 of the CRR and Part Two, Chapter I, Section VI of Circular No. 285.

subscribed and paid up capital of 130,982,698.00 euros, so that the acquisition of treasury shares in the terms of this proposal is in line with Article 2357.3 of the Italian Civil Code.

On the date of this Report, the Company has no treasury shares in portfolio nor, as mentioned, through its subsidiaries.

Pursuant to Article 2357.1 of the Italian Civil Code, the acquisition of treasury shares must fall within the limits of the distributable profit and available reserves according to the most recently-approved financial statements at the time of the transaction, and comply with the terms of Article 132 of the TUF as described more in detail in paragraph 6 of the Report.

In this connection, please see the draft financial statements for the financial year closed on 31 December 2017 (available at “*Investor Relations/General Meeting Documentation*” on the Website), which it is assumed will be endorsed by the General Meeting in the terms proposed by Board of Directors. According to said draft financial statements, reserves of 89.6 million euros are available.

The Board of Directors must also confirm compliance with the conditions in Article 2357.1 and 3 of the Italian Civil Code for the acquisition of treasury shares at the time when its launch is resolved on.

On acquiring shares or their disposal, exchange, conferral or depreciation, the pertinent book entries must be made in compliance with the applicable legal and regulatory provisions (including the applicable accounting regulations and standards). Consideration for disposal, exchange, conferral or depreciation of the Bank’s treasury shares may be used subsequently to purchase treasury shares, to the end of the term of the General Meeting’s authorisation, subject to the limits on quantity and cost and the conditions established by the Meeting.

4. The term for which authorisation is sought

Authorisation to purchase treasury shares is sought for the maximum term granted in Article 2357.2 of the Italian Civil Code, of 18 (eighteen) months as of the date of the General Meeting’s resolution approving this Authorisation Request.

During that term, the Board of Directors may embark on treasury shares transactions planned herein, once or more and at any time, to the extent and over a period freely determined, in compliance with the provisions of reference, including those of the Community, and market practice *pro tempore* in place, and with the timing judged to be in the Bank’s interests.

Authorisation is sought for the transfer, disposal and/or use of treasury shares which may be in the portfolio and/or to be acquired without a time limit, given the absence of regulatory limitations in this respect and the possibility of maximum flexibility, as well as in terms of the time frame for its possible disposal.

5. Minimum and maximum consideration, and the market valuations on whose basis they are determined

The Request for Authorisation to purchase treasury shares must comply with the pricing conditions in Article 3.2 of EU Delegated Regulation No. 2016/1052, that is on the date of this Report, for a price not more than (i) that of the latest independent transaction or (ii) that for the highest current independent purchase offer on the Computerised Share Market organised and managed by Borsa Italiana S.p.A., whichever is higher, or in accordance with the provisions in place from time to time.

Purchases must in any case be at a per-share price that does not shift more than 20% below or above the reference price recorded for the security at the stock market session prior to each individual transaction.

6. Purchase and disposal procedures

The Authorisation Request requires acquisitions of treasury shares to be implemented on regulated markets, in the manner to be specified by the Board of Directors, with priorities deemed to be in the Bank's interests as permitted in law and regulations, including those of European rank, in place from time to time and therefore, among other things, the applicable provisions of the TUF, of the Issuer Regulation, of the MAR, of the aforementioned EU Delegated Regulation No. 1052 of 8 March 2016, along with market practice from time to time, and as applicable. In particular, in line with Article 132.1 of the TUF, acquisitions of treasury shares must ensure that Shareholders are treated equitably. In this respect, among the procedures defined in Article 144-*bis*.1 of the Issuer Regulation, share acquisitions may be implemented:

- a) in a public offer to purchase or exchange; or
- b) on regulated markets in the operating procedures established in the regulations organising and managing such markets, without direct matching of buy orders against predetermined sale orders.

Moreover, given the exemption in Article 132.3 of the TUF, those procedures will not apply to purchases of treasury shares held by employees of the Company, of the subsidiaries or of the parent

Company and assigned or subscribed in the terms of Articles 2349 and 2441.8 of the Italian Civil Code, or resulting from compensation plans as provided for in Article 114-*bis* of the TUF.

This Authorisation Request also requires the following in assignment or other acts to dispose of or use any treasury shares in the portfolio or acquired with this authorisation:

(a) if paid in cash, to be for a price per share determined based on market practice criteria from time to time, or which in any event may not diverge, downward or upward, by more than 10% from the reference price posted for the security at the stock exchange session preceding each individual transaction;

(b) if implemented in the category of the extraordinary transactions in the terms of paragraph 1(c) above, for example, by exchange, conferral, swap or some other act of disposal and/or use, to be at the price limits and in the terms and conditions decided on by the Board of Directors;

(c) if part of share incentive plans or remuneration policy, to be assigned to the target of such plan or remuneration policy in the categories and terms indicated therein or according to the applicable policies and regulatory standards.

7. Information when an acquisition leads to a capital reduction

This Authorisation Request is not a means of reducing capital.

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Now, therefore, the following motion is tabled for your approval:

“The General Meeting of Banca Farmafactoring S.p.A. has reviewed the Board of Directors’ Report on this item on the Agenda,

resolves

- 1. to revoke the previous authorisation for the acquisition and disposal of Bank treasury shares granted at the 5 December 2016 General Meeting, in so far as not implemented by the date of this Resolution and, therefore, transactions completed in the meantime;*
- 2. to authorise the Board of Directors – pursuant to and for the purposes of Article 2357 of the Italian Civil Code – to purchase Bank shares once or more, for a term of eighteen months as of the date of this Resolution, for the purposes mentioned in the Board of Directors’ report to today’s General Meeting on this item on the Agenda, on the following terms and conditions:*
 - (i) the maximum number of securities to be purchased is 26,196,539 ordinary Company shares representing some 20% of its capital, currently amounting to 130,982,698 zero-*

par-value ordinary shares for a total outlay of €26,196,539.00, within the limits of the distributable profits and available reserves according to the most recently duly approved financial statements;

(ii) acquisitions must be:

- at the price conditions in Article 3.2 of EU Delegated Regulation No. 2016/1052;*
- in any event at a price per share which may not vary, downward or upward, by more than 20% of the reference price listed for the security at the last stock market session prior to each individual transaction.*

(iii) acquisitions must ensure that Shareholders are treated equitably, and take the form established in the provisions of reference, including those of the Community, and in current market practice, as indicated in the Board of Directors' report to today's General Meeting on this item on the Agenda;

3. to authorise the Board of Directors – as provided for and for the purposes of Article 2357-ter of the Italian Civil Code – to dispose of all or part of the portfolio treasury shares, once or more and without time limits, including before reaching the maximum of purchasable shares, plus possible buy-back of shares, to the extent that treasury shares held by the Company and as applicable by its subsidiaries, does not exceed the limit in the authorisation pursuant to point 2 above. Treasury shares in the portfolio may be disposed of and/or used for the purposes indicated in the Board of Directors' report submitted to today's General Meeting dealing with this item on the Agenda:

- if paid in cash, at a per-share price determined according to market practice criteria from time to time, or which in any event may not diverge, downward or upward, by more than 10% of the reference price posted for the security during the stock exchange session preceding each individual transaction;*
- if implemented in the category of extraordinary transactions pursuant to paragraph 1(c) above, for example, by exchange, conferral, swap or some other act of disposal and/or use, to be at the price limits and on the terms and conditions decided on by the Board of Directors;*
- if part of share incentive plans or remuneration policy, to be assigned to the targets of such plan or remuneration policy in the categories and terms indicated in such plans or according to the applicable policies and regulatory standards.*

4. *to grant the Board of Directors any powers needed to implement the aforesaid Resolutions, providing such as may be required, opportune, instrumental and/or related to the satisfactory implementation thereof, while disclosing the information demanded under the provisions of reference, including those of the Community, and currently accepted market practice”.*

Milan, 22 February 2018

For the Board of Directors
THE CHAIRMAN
(Salvatore Messina)